

STATE OF MICHIGAN
DEPARTMENT OF LABOR & ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE SERVICES

Before the Commissioner of the Office of Financial and Insurance Services

In the matter of:

StarMax Entertainment, LP

Enforcement Case No. 07-5048

Ernie Prince

Respondents

_____ /

Issued and entered
on July 2, 2007
by Peggy L. Bryson
Acting Chief Deputy Commissioner

ORDER TO CEASE AND DESIST

The Office of Financial and Insurance Services of the Michigan Department of Labor and Economic Growth, pursuant to the Michigan Administrative Procedures Act of 1969, MCL 24.201 *et. seq.*, ("MAPA") and the Michigan Uniform Securities Act, as amended, MCL 451.501 *et. seq.*, ("Act"), and the rules promulgated under the Act, say that:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The staff of the Office of Financial and Insurance Services ("OFIS") alleges that the following facts are true and correct:

1. OFIS is responsible for the licensing and regulation of securities and enforcement of the provisions of the Michigan Uniform Securities Act, ("Act.")
2. OFIS received information that the Respondent StarMax Entertainment, L.P., ("StarMax") and Ernie Prince, ("Prince") were engaged in the activity of offering and or selling unregistered or non-exempt securities.
3. Respondent StarMax is a licensed limited partnership in the State of California. Respondent Prince is identified as the resident agent for StarMax.

4. On December 14, 2001, a Form D was filed with OFIS on behalf of Respondent StarMax. The Form D indicated that Respondent Ernie Prince was the general partner and promoter of StarMax. StarMax and Ernie Prince are hereafter collectively referred to as "Respondents."
5. On or about April 2005, Respondents contacts a Michigan resident by telephone about investing in StarMax's Regulation D offering. The investor was not an accredited investor and had no prior relationship with either Respondent StarMax or Ernie Prince. On or about April 7, 2005, the investor invested \$2,500 in the StarMax offering. On or about May 9, 2005, the investor invested another \$2,000 in the StarMax offering. On or about June 10, 2005, the investor invested another \$2,000 in the StarMax offering. The investor sent the money for these investments to Respondent Prince via the mail. The investor has not been able to contact Respondents and has not received any return on his investment
6. At all pertinent times, as provided on the Form D and the State of California Secretary of State database, Respondents were located at: 21514 Nordoff Street, Chatsworth, CA 91311.
7. Respondent knew or had reason to know that Section 407 of the Act, MCL 451.807, provides that the Commissioner may require the production of any documents or records which the Commissioner deems relevant or material to the inquiry.
8. On October 6, 2006, via certified mail, OFIS sent a letter to the Respondents requesting certain information about StarMax's business. The Respondents failed to respond.
9. On November 22, 2006, via certified mail, OFIS sent a letter to the Respondents requesting certain information about StarMax's business. The Respondents failed to respond.
10. Respondents knew or had reason to know that Section 201 of the Act, MCL 451.601, provides that a person shall not transact business in this State as an investment adviser, agent or broker dealer unless registered under the Act.
11. Respondent Prince contacted the Michigan investor to entice him to invest in StarMax's Regulation D offering. By attempting to effect a purchase by the investor, Respondent Prince acted as an agent for Respondent StarMax.
12. At all pertinent times, Respondents StarMax and Prince were not registered investment advisers in the State of Michigan.
13. At all pertinent times, Respondents StarMax and Prince were not registered securities agents in the State of Michigan.
14. At all pertinent times, Respondents StarMax and Prince were not registered broker-dealers in the State of Michigan.

15. Respondents knew or had reason to know that Section 301 of the Act, MCL 451.701, makes it unlawful for a person to offer or sell any security in the State of Michigan unless it is: 1) registered under the Act, 2) an exempt securities transaction under Section 402 of the Act, or 3) is a federally covered security.
16. Rule 506 of Regulation D (17 C.F.R. 230.506) requires that offers and sales made pursuant to Rule 506 must satisfy the requirements of Rule 502 of Regulation D (17 C.F.R. 230.502). Rule 502 requires that when interests in a Rule 506 offering are sold to a purchaser who is not an accredited investor, the issuer must furnish financial statement information which includes an audited balance sheet before the sale.
17. The Michigan investor did not receive an audited balance sheet or any financial statements from Respondents.
18. Rule 502 of Regulation D also requires that the offering not involve general solicitation.
19. Respondent Prince did not have a preexisting relationship with the Michigan investor and contacted the Michigan investor by telephone, which is considered general solicitation.
20. Although Respondents filed a Form D with OFIS for the StarMax offering, the offering did not comply with Rule 506 of Regulation D. Further, Respondents' StarMax offering was not registered in the State of Michigan and Respondents have not claimed another exemption. Therefore, Respondents have violated Section 301 of the Act.

WHEREAS, Section 301 of the Act, MCL 451.701 of the Act provides that it is unlawful for any person to offer or sell any security in Michigan unless the security is: registered under the Act, the security or transaction is exempt under Section 402 of the Act, MCL 451.802, or the security is a federally covered security; and

WHEREAS, the Respondents' StarMax's Regulation D offering does not comply with Rule 506 of Regulation D, and the StarMax offering is not registered under the Act and not a federally covered security; and

WHEREAS, Respondents offered and sold securities in the State of Michigan in violation of Section 301 of the Act, MCL 451.701; and

WHEREAS, Section 201 of the Act, MCL 451.601, provides that a person shall not transact business in this State as an investment adviser, agent or broker dealer unless registered under the Act; and

WHEREAS, Respondents transacted business in the State of Michigan, but are not registered under the Act to act as an investment adviser, agent, or broker dealer; and

WHEREAS, Section 407 of the Act, MCL 451.807, provides that the Commissioner may require the production of any documents or records which the Commissioner deems relevant or material to the inquiry; and

WHEREAS, Respondents failed to respond to OFIS's October 6, 2006 and November 22, 2006 letters; and

WHEREAS, based on the foregoing, OFIS Staff recommends that the Commissioner find that Respondents are engaged in acts and practices that violate Section 201, 301, and 407 of the Act, MCL 451.601, 451.701, and 451.807 and Rule promulgated under the Act; and

WHEREAS, the Office of Financial and Insurance Services finds this Order necessary and appropriate in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act; and

IT IS THEREFORE ORDERED, pursuant to Section 408 of the Act, MCL 451.808 and Section 409 of the Act, MCL 451.809, that:

1. Respondents shall immediately **CEASE AND DESIST** from violating Section 201, 301, and 407 of the Act, MCL 451.601, 451.701, and 451.807.
2. By August 1, 2007, Respondents shall offer recession of the StarMax Regulation D offering to all Michigan investors,
3. Respondents' exemptions under Section 402(a)(1), (6), (7), (8), (9), (10), and 402(b) are revoked.
4. Within 30 days of the issuance and entry of this Order, Respondent Prince shall pay to the State of Michigan a civil fine of \$1,000.00.
5. Failure to comply with this ORDER will subject you to one or more of the following:
 - (a) A civil penalty of not more than \$1,000 for each violation of this Act, but not to exceed a total of \$10,000.
 - (b) A criminal penalty of not more than \$25,000 for each violation, or imprisonment of not more than 10 years, or both.

You may file with the Administrator within 15 days after service of this Order a written request for a hearing. The Administrator, within 15 days after your filing, shall issue a notice of hearing and set a date for the hearing. Any request for a hearing should be addressed to: the Office of Financial and Insurance Services, Attention: Hearing Coordinator Dawn Kobus, P.O. Box 30220, Lansing, Michigan 48909.


If you do not request a hearing, or it is not ordered by the Administrator within 15 days, this Order will stand as entered and will be FINAL.

It is important to understand that any statements that you present in response to this Order may be used against you at a hearing. It is also important to understand that you have the right, at your own expense, to have an attorney assist you at a hearing.

Any other communication regarding this Order should be addressed to the Office of Financial and Insurance Services, Attention: William R. Peattie, P.O. Box 30220, Lansing, Michigan 48909.

MICHIGAN DEPARTMENT OF
LABOR & ECONOMIC GROWTH

By:


Peggy L. Bryson
Acting Chief Deputy Commissioner